



## RATING ACTION COMMENTARY

# Fitch Assigns Final Ratings to Driver Australia seven Trust

Mon 22 Nov, 2021 - 12:33 AM ET

Fitch Ratings - Sydney - 22 Nov 2021: Fitch Ratings has assigned final ratings to Driver Australia seven Trust's pass-through floating-rate notes. The issuance consists of notes backed by a pool of first-ranking Australian automotive loan receivables originated by Volkswagen Financial Services Australia Pty Ltd (VWFSA). The notes are issued by Perpetual Corporate Trust Limited as trustee of Driver Australia seven Trust.

## RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Driver Australia seven Trust		
A AU3FN0063434	LT AAAsf Rating Outlook Stable New Rating	AAA(EXP)sf Rating Outlook Stable
B AU3FN0063442	LT NRsf New Rating	NR(EXP)sf

Sub Loan

LT

NRsf

New Rating

NR(EXP)sf

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[VIEW ADDITIONAL RATING DETAILS](#)

## TRANSACTION SUMMARY

The total collateral pool at the cut-off date of 31 October 2021 was sized at AUD600 million and consisted of 15,241 receivables with a weighted-average (WA) remaining maturity of 48.0 months.

## KEY RATING DRIVERS

**Stress Commensurate with Ratings:** Fitch assigned base-case default expectations as well as 'AAAsf' default multiples for new and used autos. Default expectations and 'AAAsf' default multiples for new autos were 2.5% and 5.75x, respectively, and 4.25% and 5.25x for used autos. Recoveries were 50% for new autos and 40% for used autos, with a 'AAAsf' haircut of 50.0% for both. The WA base-case default assumption and 'AAAsf' default multiple were 2.9% and 5.6x, respectively.

The Stable Outlook is supported by Australia's management of the Covid-19 pandemic, including the nationwide vaccine rollout facilitating the removal of lockdown restrictions. We expect Australia's GDP to dip in 3Q21, cutting our 2021 forecast to 3.7%, with an unemployment rate of 5.2%. We expect GDP growth to accelerate in 2022 at 4.5% and the unemployment rate to improve to 4.4%.

**Credit Enhancement Supports Ratings:** Credit enhancement (CE) is provided by note subordination, over-collateralisation, a cash collateral account and a subordinated loan.

**Structural Risk Addressed:** Fitch evaluated structural risk by reviewing transaction documentation and structural features. A cash collateral account, sized at 1.2% of the outstanding discounted receivables balance with a floor of the lesser of AUD6.0 million or the aggregate balance of the class A and B notes, supports the rated notes.

**Low Operational and Servicing Risk:** All assets were originated by VWFSA, a wholly owned subsidiary of Volkswagen Financial Services AG, which is in turn wholly owned by Volkswagen AG (BBB+/Positive/F1). Fitch undertook an onsite operational review and found that the operations of the originator and servicer were consistent with the market standards for auto lenders.

**No Residual Value Risk:** There is no residual value exposure in this transaction. However, refinance risk exists as 41.9% of the remaining outstanding contract balances have balloon payments. Refinance risk on loans with a balloon payment has been considered in the default multiples.

## **RATING SENSITIVITIES**

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

A longer pandemic than Fitch expects that leads to deterioration in macroeconomic fundamentals and consumers' financial positions in Australia beyond Fitch's baseline scenario could lead to a downgrade.

Unanticipated increases in the frequency of defaults and loss severity on defaulted receivables could produce loss levels higher than Fitch's base case, and are likely to result in a decline in CE and remaining loss-coverage levels available to the notes. Decreased CE may make certain note ratings susceptible to potential negative rating action, depending on the extent of the coverage decline. Hence, Fitch conducts sensitivity analysis by stressing a transaction's initial base-case assumptions.

#### Rating Sensitivity to Increased Default Rates

Rating: AAAsf

Defaults increase 10%: AA+sf

Defaults increase 25%: AAAsf

Defaults increase 50%: AA-sf

#### Rating Sensitivity to Reduced Recovery Rates

Recoveries decrease 10%: AA+sf

Recoveries decrease 25%: AA+sf

Recoveries decrease 50%: AA+sf

#### Rating Sensitivity to Increased Defaults and Reduced Recoveries

Defaults increase 10%/recoveries decrease 10%: AA+sf

Defaults increase 25%/recoveries decrease 25%: AA-sf

Defaults increase 50%/recoveries decrease 50%: Asf

**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

Class A notes are at 'AAAsf', the highest level on Fitch's scale, and cannot be upgraded.

Upgrade Sensitivity:

As the class A notes are at 'AAAsf', upgrade sensitivities are not relevant.

**BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

**USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10**

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

**DATA ADEQUACY**

Fitch sought to receive a third-party assessment conducted on the asset portfolio information, but none was made available to Fitch for this transaction.

Fitch conducted a review of a small targeted sample of the originator's origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolio.

Overall, and together with any assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

The issuer has informed Fitch that not all relevant underlying information used in the analysis of the rated notes is public.

## **REPRESENTATIONS, WARRANTIES AND ENFORCEMENT MECHANISMS**

A description of the transaction's representations, warranties and enforcement mechanisms (RW&Es) that are disclosed in the offering document and which relate to the underlying asset pool is available by clicking the link to the Appendix. The appendix also contains a comparison of these RW&Es to those Fitch considers typical for the asset class as detailed in the Special Report titled 'Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions'.

## **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

[www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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**APPLICABLE CRITERIA**

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 21 Sep 2021\)](#)

[Global Structured Finance Rating Criteria \(pub. 26 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 05 Nov 2021\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 05 Nov 2021\)](#)

[Consumer ABS Rating Criteria \(pub. 10 Nov 2021\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Multi-Asset Cash Flow Model, v2.11.0 (1)

## **READ MORE ON THIS TOPIC**

[Driver Australia seven Trust - Appendix](#)

## **ADDITIONAL DISCLOSURES**

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Driver Australia seven Trust

EU Endorsed, UK Endorsed

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